

**FITZGERALD PUBLIC SCHOOLS**

**FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2006**

**FITZGERALD PUBLIC SCHOOLS**

**FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2006**

# FITZGERALD PUBLIC SCHOOLS

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# REHMANN ROBSON

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

October 20, 2006

Board of Education  
Fitzgerald Public Schools

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Fitzgerald Public Schools (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Fitzgerald Public Schools, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated October 20, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on Pages 3 - 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fitzgerald Public Schools basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehman Hobson".

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# FITZGERALD SCHOOL DISTRICT

## Managements' Discussion and Analysis

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As management of FITZGERALD PUBLIC SCHOOLS, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006.

### Financial Highlights

- On a government-wide basis, net assets were \$33.9 million at June 30, 2006 compared to \$31.7 million at June 30, 2005, an increase \$2.2 million.
- The fund equity balance of the general fund, the district's primary operating fund, increased approximately \$0.6 million to \$11.8 million at June 30, 2006 as compared to the same date last year

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, community service, food service, athletics and child care. The District has no business-type activities as of and for the year ended June 30, 2006.



# FITZGERALD SCHOOL DISTRICT

## Managements' Discussion and Analysis

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The government-wide financial statements can be found on pages 13-14 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, Proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government -wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, and capital projects funds, each of which are considered to be a major fund. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 15-19 of this report.

**Proprietary funds.** The District maintains an Internal Service fund, which is a type of proprietary fund. An Internal Service Fund is an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses this fund to account for the provision of compensated absences relating to unused sick and certain retirement payments. Because this service is solely for the benefit of the governmental functions, it has

# FITZGERALD SCHOOL DISTRICT

## Managements' Discussion and Analysis

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been included within governmental activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 20-22 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 23-24 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-40 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 41-48 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$33,860,573 at the close of the most recent fiscal year.

A portion of the District's net assets (59%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (35%) may be used to meet the government's ongoing obligations to its programs.

# FITZGERALD SCHOOL DISTRICT

## Managements' Discussion and Analysis

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At the end of the current fiscal year, the District was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental-type activities.

The government's net assets increased by \$2,182,898 during the current fiscal year due primarily to interest income on the investment of bond proceeds and the contribution of revenue in excess of expenditures in the general fund.

### District's Net Assets

	<b>Governmental Activities</b>	
	<b>2005-06</b>	<b>2004-05</b>
Current and other assets	\$ 44,370,195	\$ 55,119,061
Noncurrent assets, net	43,606,987	33,186,274
Total assets	87,977,182	88,305,335
Current liabilities	5,869,087	6,851,154
Noncurrent liabilities, net	48,247,522	49,776,506
Total liabilities	54,116,609	56,627,660
Net assets:		
Invested in capital assets, net of related debt	19,813,710	13,786,899
Restricted	2,171,265	1,640,973
Unrestricted	11,875,598	16,249,803
Total net assets	\$ 33,860,573	\$ 31,677,675

# FITZGERALD SCHOOL DISTRICT

## Managements' Discussion and Analysis

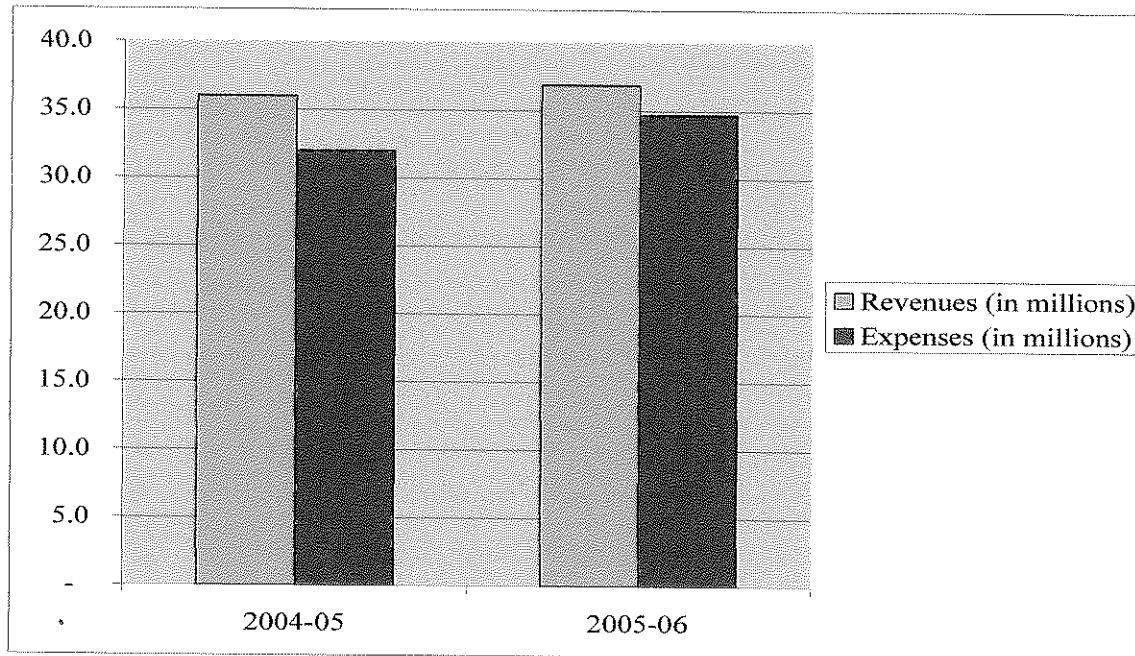
### District's Changes in Net Assets

	Governmental Activities	
	2005-06	2004-05
Revenue:		
Program revenue:		
Charges for services	\$ 390,963	\$ 568,726
Operating grants and contributions	5,123,749	5,325,205
General revenue:		
Property taxes	12,697,814	12,051,879
State school aid	16,895,009	16,854,112
Other	1,947,671	1,161,177
Total revenue	<u>37,055,206</u>	<u>35,961,099</u>
Expenses:		
Instruction	16,011,681	15,007,154
Support services	12,127,296	11,653,807
Community Service	3,663	2,354
Athletics	313,474	294,666
Food Service	885,198	837,108
Child care	210,742	235,053
Interest on long-term debt	1,929,315	1,561,040
Other	1,094,589	186,348
Unallocated depreciation	2,296,350	2,203,335
Total expenses	<u>34,872,308</u>	<u>31,980,865</u>
Increase (decrease) in net assets	2,182,898	3,980,234
Net assets, beginning of year, as restated	<u>31,677,675</u>	<u>27,697,441</u>
Net assets, end of year	<u>\$ 33,860,573</u>	<u>\$ 31,677,675</u>

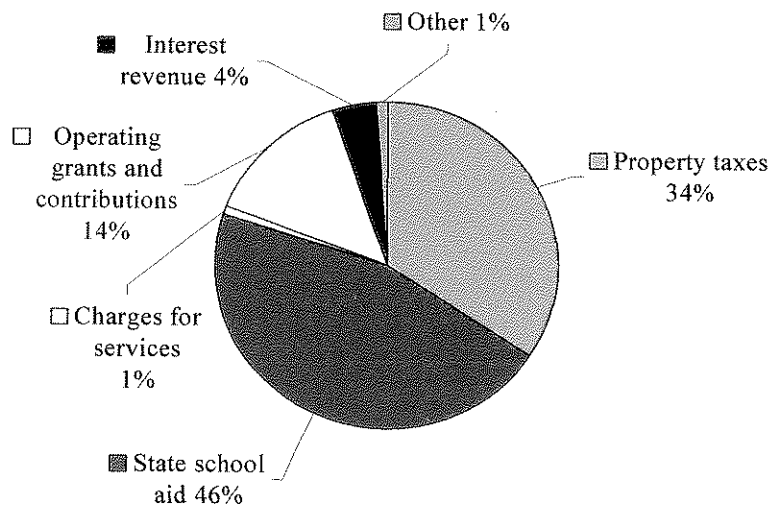
# FITZGERALD SCHOOL DISTRICT

## Managements' Discussion and Analysis

### Total Revenues vs. Total Expenses - Governmental Activities



### Revenues by Source - Governmental Activities



# FITZGERALD SCHOOL DISTRICT

## Managements' Discussion and Analysis

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### Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$39,581,807, a decrease of \$9,151,239 from the prior year. Approximately 95% of this total amount (\$37.57 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. Any remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in inventory and prepaids.

The general fund is the chief operating fund of the District, and represents the bulk of the District's unreserved fund balance. At the end of the current fiscal year, unreserved fund balance of the general fund was \$11,790,671. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 41 percent of total general fund expenditures.

The fund balance of the District's general fund increased by \$558,914 during the current fiscal year. This is primarily attributable to the contribution of revenue in excess of expenditures in the general fund.

The capital project fund incurred \$13,065,873 of expenditures for capital improvements to the high school and three elementary school buildings. These expenditures helped to bring the total fund balance down to \$25,619,871, which represents the unliquidated portion of the original bond proceeds.

### General Fund Budgetary Highlights

Differences between the original and final amended budgeted revenues and expenditures amounted to an increase of \$259,007 in revenues and an increase in expenditures of \$266,879. The original budget, which was completed at the end of the prior fiscal year, reflected certain assumptions for enrollment, state aid, grant funding, staffing, and other expenditures. The final amended budget approved by the board in March 2006 reflected actual enrollment based on the

# FITZGERALD SCHOOL DISTRICT

## Managements' Discussion and Analysis

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September 2005 official pupil count, the actual increase in per pupil funding from the State and a revised estimate of Federal approved grant funding. Operating expenditures based on the revised revenue estimate were updated accordingly. Actual total revenue for 2006 exceeded the final budget by \$147,080 due primarily to higher than expected property tax collections and Medicaid fees for services revenue that was not anticipated in the budget. Total expenditures were less than budget by \$1,307,613 due primarily to unused contingencies in operations and maintenance and employee benefits.

### Capital Asset and Debt Administration

**Capital assets.** The District's investment in capital assets for its governmental activities as of June 30, 2006, amounted to \$43,306,885 (net of accumulated depreciation), which is an increase of \$10,440,679 over the prior year's investment. This investment in capital assets includes land, buildings, vehicles and equipment. The increase in the District's investment in capital assets for the current fiscal year was approximately 32% of the prior year's total, and was due mainly to capital improvements to the high school and three elementary school buildings.

The major capital asset events during the current fiscal year were:

- Construction of an auxiliary gymnasium at the high school
- Expansion of the high school lunch room and kitchen
- Construction of a field house at the high school athletic complex
- Installation of geo-thermal heating/cooling systems at Mound Park and Schofield Elementary Schools
- Planning and design of a new Westview Elementary School to replace the existing Westview Elementary building. Expected completion of August 2007.

# FITZGERALD SCHOOL DISTRICT

## Managements' Discussion and Analysis

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### District's Capital Assets (net of depreciation)

	<u>2005-06</u>	<u>2004-05</u>
Land	\$ 887,724	\$ 887,724
Construction in progress	17,426,136	5,614,326
Buildings and building improvements	22,208,690	23,152,264
Buses and other vehicles	357,954	297,487
Furniture and equipment	2,426,381	2,914,405
Total	<u>\$ 43,306,885</u>	<u>\$ 32,866,206</u>

Additional information on the District's capital assets can be found in the "Notes to the Financial Statements" section of this report.

**Long-term debt.** At the end of the current fiscal year, the District had total bonded debt outstanding of \$47,570,000.

The District's total bonded debt decreased by \$1,695,000 (approximately 3.4%) during the current fiscal year, due to debt service payments.

Additional information on the District's long-term debt can be found in the "Notes to the Financial Statements" section of this report.

### Factors Bearing on the District's Future

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2006-07 fiscal year:

The District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund. The actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The District's administration and Board of Education (the "Board") consider many factors in the budget process. One of the most important factors affecting the budget is student enrollment. Over 90% of the District's revenue is derived from the State of Michigan's student enrollment based funding formula. The formula to allocate revenue to school districts is based on the blending of two official pupil counts and a per-pupil funding allocation (called the "Foundation Allowance"). The blended count for fiscal 2007 is based on 25 percent of the February 2006 count plus 75 percent of the September 2006 count. The sum of these products is multiplied by the Foundation Allowance of \$8,370. The



# **FITZGERALD SCHOOL DISTRICT**

## **Managements' Discussion and Analysis**

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Foundation Allowance reflects an increase of \$210 per pupil from 2006. Due to difficult economic conditions in the State of Michigan, this and last year's increase of \$175 are the only increases in the Foundation Allowance since 2003.

The 2007 budget was adopted in June 2006 based on an estimate of the number of students that will be enrolled in September 2006. Based on the September 2006 preliminary (unofficial) student count, it appears that the September student count will be below the estimated count used in the original 2007 budget adopted by the Board. The \$210 increase in the Foundation Allowance will be largely offset by the increase in state retirement rate and increased premiums for health care expenses for the District's employees. Given the challenging economic conditions in Michigan, there is the possibility the State may not be able to fund the entire \$210 increase. Due to the 2005 hurricanes in the Gulf region of the United States and the volatile price of crude oil, the cost increases for natural gas for heat and diesel fuel for bus transportation are uncertain at this time. Administration and the Board will need to implement a plan to adjust expenses and amend the budget accordingly.

### **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, 23200 Ryan Rd., Warren, MI 48091.

## **BASIC FINANCIAL STATEMENTS**

**FITZGERALD PUBLIC SCHOOLS**  
**STATEMENT OF NET ASSETS**

June 30, 2006

ASSETS	Governmental Activities
<b>Current assets</b>	
Cash and cash equivalents	\$ 20,795,688
Investments	19,687,857
Accounts receivable	40,516
Due from other governments	3,833,886
Prepaid items and other assets	12,248
<b>Total current assets</b>	<b>44,370,195</b>
<b>Noncurrent assets</b>	
Capital not being depreciated	18,313,860
Capital assets being depreciated	50,944,956
Accumulated depreciation	(25,951,931)
Net capital assets	43,306,885
Unamortized bond issuance costs	300,102
<b>Total noncurrent assets</b>	<b>43,606,987</b>
<b>Total assets</b>	<b>87,977,182</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	1,222,195
Salaries and related liabilities	1,349,441
Other accrued liabilities	322,440
Unearned revenue	207,519
Accrued interest payable	314,457
Compensated absences and severance pay, due within one year	378,035
Bonds payable, due within one year	2,075,000
<b>Total current liabilities</b>	<b>5,869,087</b>
<b>Noncurrent liabilities</b>	
Bonds payable, net	47,038,046
Compensated absences and severance pay	1,209,476
<b>Total noncurrent liabilities</b>	<b>48,247,522</b>
<b>Total liabilities</b>	<b>54,116,609</b>
<b>Net assets</b>	
Invested in capital assets, net of related debt	19,813,710
Restricted for	
Debt service	1,998,421
Other purposes	172,844
Unrestricted	11,875,598
<b>Total net assets</b>	<b>\$ 33,860,573</b>

The accompanying notes are an integral part of these financial statements.

# FITZGERALD PUBLIC SCHOOLS

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Instruction	\$ 16,011,681	\$ 22,031	\$ 4,423,581	\$ -	\$ (11,566,069)
Supporting services	12,127,296	-	-	-	(12,127,296)
Community service	3,663	-	-	-	(3,663)
Athletics	313,474	27,972	-	-	(285,502)
Food service	885,198	187,875	700,168	-	2,845
Child care	210,742	153,085	-	-	(57,657)
Interest on long-term debt	1,929,315	-	-	-	(1,929,315)
Other	933,164	-	-	-	(933,164)
Unallocated depreciation	2,296,350	-	-	-	(2,296,350)
<b>Total</b>	<b>\$ 34,710,883</b>	<b>\$ 390,963</b>	<b>\$ 5,123,749</b>	<b>\$ -</b>	<b>(29,196,171)</b>
General revenues:					
Property taxes					12,697,814
State aid unrestricted					16,895,009
Gain on investments					1,505,030
Other non-program revenue					391,345
Amortization of bond costs, discounts and premium					51,296
Loss on Sale/Disposal of Capital Assets					(161,425)
<b>Total general revenues</b>					<b>31,379,069</b>
Change in net assets					2,182,898
Net assets, beginning of year					<u>31,677,675</u>
Net assets, end of year					<u><u>\$ 33,860,573</u></u>

The accompanying notes are an integral part of these financial statements.

**FITZGERALD PUBLIC SCHOOLS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2006**

ASSETS	General	Capital Project Fund	Nonmajor Funds	Totals
<b>Assets</b>				
Cash and cash equivalents	\$ 9,662,378	\$ 7,848,805	\$ 1,597,712	\$ 19,108,895
Investments	-	18,959,321	728,536	19,687,857
Accounts receivable	38,520	-	1,996	40,516
Due from other funds	1,607,369	137,191	110,366	1,854,926
Due from other governments	3,831,497	-	2,389	3,833,886
Inventory	-	-	12,248	12,248
<b>Total assets</b>	<b>\$ 15,139,764</b>	<b>\$ 26,945,317</b>	<b>\$ 2,453,247</b>	<b>\$ 44,538,328</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,222,150	\$ -	\$ 45	\$ 1,222,195
Salaries and related liabilities	1,349,441	-	-	1,349,441
Accrued expenditures	322,440	-	-	322,440
Due to other funds	247,543	1,325,446	281,937	1,854,926
Deferred revenue	207,519	-	-	207,519
<b>Total liabilities</b>	<b>3,349,093</b>	<b>1,325,446</b>	<b>281,982</b>	<b>4,956,521</b>
<b>Fund balances</b>				
Reserved for				
Inventory	-	-	12,248	12,248
Debt service	-	-	1,998,421	1,998,421
Unreserved				
Designated by board	5,180,459	-	-	5,180,459
Undesignated	6,610,212	25,619,871	-	32,230,083
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	160,596	160,596
<b>Total fund balances</b>	<b>11,790,671</b>	<b>25,619,871</b>	<b>2,171,265</b>	<b>39,581,807</b>
<b>Total liabilities and fund balances</b>	<b>\$ 15,139,764</b>	<b>\$ 26,945,317</b>	<b>\$ 2,453,247</b>	<b>\$ 44,538,328</b>

The accompanying notes are an integral part of these financial statements.

## FITZGERALD PUBLIC SCHOOLS

### RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

June 30, 2006

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Fund balances - total governmental funds	\$ 39,581,807
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Amounts reported for governmental activities in the statement of net assets are different because:

The District uses an internal service fund to charge the costs of certain activities, such as future sick and retirement, as appropriate to other funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	99,282
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	69,258,816
Deduct: accumulated depreciation	(25,951,931)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable, net	(49,113,046)
Deduct: accrued interest payable	(314,457)
Add: unamortized bond issuance costs	300,102

<b>Net assets of governmental activities</b>	<b><u>\$ 33,860,573</u></b>
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The accompanying notes are an integral part of these financial statements.

**FITZGERALD PUBLIC SCHOOLS**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

**Year Ended June 30, 2006**

	General	Capital Projects Fund	Nonmajor Funds	Totals
<b>Revenue</b>				
Local sources	\$ 7,982,305	\$ 3,390,401	\$ 3,688,848	\$ 15,061,554
State sources	18,735,949	-	46,492	18,782,441
Federal sources	1,817,309	-	508,841	2,326,150
Interdistrict and other sources	765,332	-	-	765,332
<b>Total revenue</b>	<b>29,300,895</b>	<b>3,390,401</b>	<b>4,244,181</b>	<b>36,935,477</b>
<b>Expenditures</b>				
Current				
Instruction	16,562,488	-	-	16,562,488
Supporting services	12,114,925	2,100	-	12,117,025
Community Services	3,663	-	-	3,663
Athletics	-	-	348,649	348,649
Child care	-	-	210,742	210,742
Food service	-	-	901,147	901,147
Debt service				
Principal repayment	-	450,000	1,245,000	1,695,000
Interest and fiscal charges	-	301,990	1,627,524	1,929,514
Other	-	225	6,705	6,930
Other	-	4,764	-	4,764
Capital outlay	-	12,306,794	-	12,306,794
<b>Total expenditures</b>	<b>28,681,076</b>	<b>13,065,873</b>	<b>4,339,767</b>	<b>46,086,716</b>
Revenue over (under) expenditures	619,819	(9,675,472)	(95,586)	(9,151,239)
<b>Other financing sources (uses)</b>				
Transfers in	375,000	-	660,424	1,035,424
Transfers out	(435,905)	(564,972)	(34,547)	(1,035,424)
<b>Total other financing sources (uses)</b>	<b>(60,905)</b>	<b>(564,972)</b>	<b>625,877</b>	<b>-</b>
Net change in fund balance	558,914	(10,240,444)	530,291	(9,151,239)
Fund balances, beginning of year	11,231,757	35,860,315	1,640,974	48,733,046
<b>Fund balances, end of year</b>	<b>\$ 11,790,671</b>	<b>\$ 25,619,871</b>	<b>\$ 2,171,265</b>	<b>\$ 39,581,807</b>

The accompanying noters are an integral part of these financial statements.

## FITZGERALD PUBLIC SCHOOLS

### RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

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Net change in fund balances - total governmental funds	\$ (9,151,239)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
The District uses an internal service fund to charge the costs of certain activities, such as future sick and retirement, as appropriate, to other funds. The net losses of internal service funds are included in governmental activities.	
	(859,966)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add: capital outlay	12,898,454
Deduct: depreciation expense	(2,296,350)
Governmental funds do not report a recognition of either a gain or loss on the sale or disposition of fixed assets, but they are reported in the Statement of Activities.	
	(161,425)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Add: principal payments on long-term liabilities	1,695,000
Amortization of bond premium and bond costs	51,296
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: decrease in accrued interest payable on bonds	7,128
<b>Change in net assets of governmental activities</b>	<b><u><u>\$ 2,182,898</u></u></b>

The accompanying notes are an integral part of these financial statements.



# FITZGERALD PUBLIC SCHOOLS

## Statement of Revenue, Expenditures, and Changes in Fund Balance Budget and Actual

### General Fund

Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>				
Local sources	\$ 7,314,580	\$ 7,756,442	\$ 7,982,305	\$ 225,863
State sources	19,091,675	18,891,416	18,735,949	(155,467)
Federal sources	1,900,553	1,938,625	1,817,309	(121,316)
Interdistrict and other sources	588,000	567,332	765,332	198,000
<b>Total revenue</b>	<b>28,894,808</b>	<b>29,153,815</b>	<b>29,300,895</b>	<b>147,080</b>
<b>Expenditures</b>				
<b>Instruction</b>				
Basic programs	12,528,127	12,441,068	12,052,763	388,305
Added needs	4,078,060	4,635,078	4,509,725	125,353
<b>Total instruction</b>	<b>16,606,187</b>	<b>17,076,146</b>	<b>16,562,488</b>	<b>513,658</b>
<b>Support Services</b>				
Pupil services	1,919,175	1,858,361	1,845,534	12,827
Instructional staff	1,921,548	1,994,012	1,823,987	170,025
General administration	584,090	582,131	516,120	66,011
School administration	1,696,004	1,699,055	1,687,945	11,110
Business services	516,102	517,808	485,333	32,475
Operation and maintenance	5,143,810	4,964,417	4,560,883	403,534
Transportation	1,099,721	1,058,735	1,002,563	56,172
Central	224,612	214,118	192,157	21,961
Other	2,601	9,100	403	8,697
<b>Total support services</b>	<b>13,107,663</b>	<b>12,897,737</b>	<b>12,114,925</b>	<b>782,812</b>
<b>Community services</b>	<b>7,960</b>	<b>14,806</b>	<b>3,663</b>	<b>11,143</b>
<b>Total expenditures</b>	<b>29,721,810</b>	<b>29,988,689</b>	<b>28,681,076</b>	<b>1,307,613</b>
Revenue over expenditures	(827,002)	(834,874)	619,819	1,454,693
<b>Other financing sources (uses)</b>				
Operating transfer in	375,000	375,000	375,000	-
Operating transfer out	(338,981)	(423,580)	(435,905)	(12,325)
<b>Total other financing uses</b>	<b>36,019</b>	<b>(48,580)</b>	<b>(60,905)</b>	<b>(12,325)</b>
Net change in fund balance	(790,983)	(883,454)	558,914	1,442,368
Fund balance, beginning of year	11,231,757	11,231,757	11,231,757	11,231,757
Fund balance, end of year	\$ 10,440,774	\$ 10,348,303	\$ 11,790,671	\$ 12,674,125

The accompanying notes are an integral part of these financial statements.

**FITZGERALD PUBLIC SCHOOLS**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**

**June 30, 2006**

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	<u>Internal Service Benefit Trust</u>
<b>Assets</b>	
Cash and cash equivalents	\$     1,686,793
<b>Total assets</b>	<u><u>\$     1,686,793</u></u>
<b>Liabilities</b>	
Accrued expenses	\$     1,587,511
<b>Total liabilities</b>	<u><u>\$     1,587,511</u></u>
<b>Net assets</b>	<u><u>\$         99,282</u></u>

The accompanying notes are an integral part of these financial statements.

# **FITZGERALD PUBLIC SCHOOLS**

## **STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND**

**Year Ended June 30, 2006**

	<u>Internal Service Benefit Trust</u>
<b>Operating revenue</b>	\$ -
<b>Operating expenses</b>	
Other operating costs	<u>928,400</u>
<b>Total operating expenses</b>	<u>928,400</u>
Operating income (loss)	(928,400)
<b>Nonoperating revenue</b>	
Earnings on investments	<u>68,434</u>
Change in net assets	(859,966)
<b>Net assets, beginning of year</b>	<u>959,248</u>
<b>Net assets, end of year</b>	<u><u>\$ 99,282</u></u>

The accompanying notes are an integral part of these financial statements.

# FITZGERALD PUBLIC SCHOOLS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUND

Year Ended June 30, 2006

	Internal Service Benefit Trust
Cash flows from operating activities	
Cash paid to users	\$ (537,284)
Net cash used by operating activities	(537,284)
Cash flows from investing activities	
Earnings on investments	68,434
Net cash provided by investing activities	68,434
Decrease in cash and cash equivalents	(468,850)
Cash and cash equivalents, beginning of year	2,155,643
Cash and cash equivalents, end of year	\$ 1,686,793

### Reconciliation of Operating Income to Net Cash Provided by Operations

Operating (loss)	\$ (928,400)
Increase in accrued expenses	391,116
Net cash provided by operations	\$ (537,284)

The accompanying notes are an integral part of these financial statements.

**FITZGERALD PUBLIC SCHOOLS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**ALL FIDUCIARY FUNDS**

**June 30, 2006**

	<u>Agency</u> <u>Student</u> <u>Activities</u>	<u>Private Purpose Trust</u> <u>Scholarship</u> <u>Fund</u>	<u>Deferred</u> <u>Compensation</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 264,414	\$ 27,492	\$ 37,325
Due from other funds	-	190	-
<b>Total assets</b>	<b><u>\$ 264,414</u></b>	<b><u>\$ 27,682</u></b>	<b><u>\$ 37,325</u></b>
<b>Liabilities</b>			
Accounts payable	\$ 39,974	-	-
Due to other funds	190	-	-
Due to student groups and activities	224,250	-	-
<b>Total liabilities</b>	<b><u>\$ 264,414</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Net assets</b>			
Unrestricted		<b><u>\$ 27,682</u></b>	<b><u>\$ 37,325</u></b>

The accompanying notes are an integral part of these financial statements.

**FITZGERALD PUBLIC SCHOOLS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PRIVATE PURPOSE TRUST FUND**

Year Ended June 30, 2006

	<u>Scholarship</u>	<u>Deferred Compensation</u>
<b>Revenue</b>		
Local sources		
Earnings on investments	\$ 1,139	\$ 2,048
Contributions	4,829	-
<b>Total revenue</b>	<u>5,968</u>	<u>2,048</u>
<b>Expenses</b>		
Scholarships	7,000	-
Participant withdrawals	-	262,584
<b>Total expenses</b>	<u>7,000</u>	<u>262,584</u>
Change in net assets	(1,032)	(260,536)
<b>Net assets, beginning of year</b>	<u>28,714</u>	<u>297,861</u>
<b>Net assets, end of year</b>	<u><u>\$ 27,682</u></u>	<u><u>\$ 37,325</u></u>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

# **FITZGERALD PUBLIC SCHOOLS**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

Fitzgerald Public Schools (the "District") has followed the guidelines of the Governmental Accounting Standards Board's Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### **B. District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary fund, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.



# FITZGERALD PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the fiduciary trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds use the accrual basis of accounting but do not use the economic resource measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of expenditure driven grants, which are considered available if collected within one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Business-type activities distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services in connection with the fund's primary ongoing operations. All other revenues and expenses are non-operating.

The District reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

# **FITZGERALD PUBLIC SCHOOLS**

## **NOTES TO THE FINANCIAL STATEMENTS**

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The capital projects fund accounts for the construction as well as, the acquisition of capital assets and the renovation of certain other District facilities. These projects are funded by two general obligation unlimited tax bond issues.

Additionally, the District reports the following fund types:

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The District's special revenue funds include the food services and athletics funds. Any operating deficit generated by these activities is the responsibility of the general fund.

The debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The proprietary fund and internal service fund revenues and expenses are related to services provided to the District on a cost-reimbursement basis. The District uses an internal service fund to provide for compensated absences relating to unused sick and certain retirement payments.

The fiduciary funds are assets held by the District in a trustee capacity or as an agent on behalf of others. The District has three fiduciary funds, which include the private-purpose trust, the student activities agency fund and the 457B pension fund. The private-purpose trust includes contributions received by the District to be awarded in the form of scholarships. The student activities agency fund is used to account for transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students. The 457B pension fund is a retirement fund held in trust for the participants.

The private purpose trust and the 457B pension fund use the economic resources measurement focus and the accrual basis of accounting. The student activities agency fund is custodial in nature where assets equal liabilities and has no measurement focus.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

# **FITZGERALD PUBLIC SCHOOLS**

## **NOTES TO THE FINANCIAL STATEMENTS**

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Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the district-wide financial statements.

### **D. Assets, Liabilities and Equity**

#### ***1. Deposits and investments***

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

#### ***Statutory Authority***

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

# FITZGERALD PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for the following types of investments.

- (a) Bonds, bills, or notes of the United States.
- (b) Certificates of deposit insured by a State or national bank, savings account of a state or federal savings and loan association, or certificates of deposits or share certificates of a state or federal credit union organized and authorized to operate in this state. These institutions should be located in the Macomb, Oakland, Wayne, Tri-County area.
- (c) Insured money market accounts issued by a state or national bank, federal savings and loan association, or insured money market accounts of a state or federal credit union organized and authorized to operate in this state. These institutions should be located in the Macomb, Oakland, Wayne, Tri-County area.
- (d) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

### ***2. Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

### ***3. Inventories and prepaid items***

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

# FITZGERALD PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both district-wide and fund financial statements.

### 4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	20 - 50
Furniture and equipment	5 - 15
Licensed vehicles	8

### 5. *Compensated absences*

The liability for compensated absences reported in the district-wide statements consists of accrued sick time and severance pay. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

# **FITZGERALD PUBLIC SCHOOLS**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **6. *Long-term obligations***

In the district-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts received in debt issuances are reported as other financing sources and/or uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

### **7. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Information**

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

### **B. Excess of Expenditures over Appropriations**

The District had a budget overrun during the fiscal year at the legal level of control as indicated in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

# FITZGERALD PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

### C. Capital Projects Fund Compliance

The Sinking Fund Capital Projects Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of § 1212(1) of the State of Michigan School Code and the State of Michigan Department of Treasury Letter No. 01-95.

## III. DETAILED NOTES ON ALL FUNDS

### A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Other</u>	<u>Total Book</u>
Governmental Activities				
Cash	\$ 17,883,038	\$ 2,911,348	\$ 1,302	\$ 20,795,688
Investments	-	19,687,857	-	19,687,857
Fiduciary Funds				
Cash	<u>329,231</u>	<u>-</u>	<u>-</u>	<u>329,231</u>
	<u>\$ 18,212,269</u>	<u>\$ 22,599,205</u>	<u>\$ 1,302</u>	<u>\$ 40,812,776</u>

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investments:

<u>Investment Type</u>	<u>Less than 1 year</u>	<u>1 -5</u>	<u>Not Applicable</u>	<u>Total</u>	<u>Rating</u>
U.S. Treasuries	\$ 1,571,796	\$ -	\$ -	\$ 1,571,796	AAA
U.S. Agencies	9,636,698	8,479,363	-	18,116,061	AAA
Investment Pools	-	-	<u>2,911,348</u>	<u>2,911,348</u>	
Total	<u>\$ 11,208,494</u>	<u>\$8,479,363</u>	<u>\$2,911,348</u>	<u>\$ 22,599,205</u>	

### Investment and Deposit Risk

*Interest Rate Risk* State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year end.

# FITZGERALD PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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*Credit Risk* State law limits investments to specific investment types as identified in the summary of significant accounting policies of this report. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for all U.S. Treasuries and U.S. Agencies are AAA rated by Standard and Poors rating service.

*Custodial Credit Risk – Deposits* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$21,546,735 of the District's bank balance of \$22,090,160 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. Of the above \$19,945,695 in investments, the District has a custodial credit risk exposure of \$19,945,695 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

*Concentration of Credit Risk* State law limits allowable investments but does not limit concentration of credit risk as identified in note 1 of the summary of significant accounting policies. The District investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the Districts investments are in Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, Federal Home Loan Bank, and Federal National Mortgage Association notes. All investments held at year end are reported above.



# FITZGERALD PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

### B. Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2006 is as follows:

Due to	Due From			Total
	General Fund	Capital Project Fund	Other Governmental Funds	
General Fund	\$ -	\$ 1,325,446	\$ 281,923	\$ 1,607,369
Capital Project Fund	137,191	-	-	137,191
Other Governmental Funds	<u>110,352</u>	<u>-</u>	<u>14</u>	<u>110,366</u>
Total	<u>\$ 247,543</u>	<u>\$ 1,325,466</u>	<u>\$ 281,937</u>	<u>\$ 1,854,926</u>

Interfund balances result from the use of a centralized cash disbursements system.

The composition of interfund transfers for the year ended is as follows:

Transfer Out	Transfer In		Total
	General Fund	Other Governmental Funds	
General Fund	\$ -	\$435,905	\$ 435,905
Capital Project Fund	375,000	189,972	564,972
Other Governmental Funds	<u>-</u>	<u>34,547</u>	<u>34,547</u>
Total	<u>\$375,000</u>	<u>\$660,424</u>	<u>\$1,035,424</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2006, the District transferred funds primarily to subsidize the athletics and child care programs as well as to transfer required funds to satisfy sinking fund requirements.

# FITZGERALD PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

### C. Capital assets

	Beginning Balance as Restated	Additions	Disposals and Adjustments	Ending Balance
<b>Capital assets not being depreciated</b>				
Land	\$ 887,724	\$ -	\$ -	\$ 887,724
Construction in progress	5,614,326	11,811,810	-	17,426,136
Subtotal capital assets not being depreciated	6,502,050	11,811,810	-	18,313,860
<b>Capital assets being depreciated</b>				
Buildings and improvements	42,734,586	441,658	-	43,176,244
Furniture and equipment	6,578,769	510,676	423,612	6,665,833
Vehicles	1,059,877	134,310	91,308	1,102,879
Subtotal capital assets being depreciated	50,373,232	1,086,644	514,920	50,944,956
<b>Accumulated Depreciation</b>				
Buildings and improvements	19,582,322	1,385,232	-	20,967,554
Furniture and equipment	3,664,364	837,275	262,187	4,239,452
Vehicles	762,390	73,843	91,308	744,925
Subtotal accumulated depreciation	24,009,076	2,296,350	353,495	25,951,931
<b>Net capital assets being depreciated</b>	<u>26,364,156</u>	<u>(1,209,706)</u>	<u>161,425</u>	<u>24,993,025</u>
<b>Net capital assets</b>	<u>\$ 32,866,206</u>	<u>\$ 10,602,104</u>	<u>\$ 161,425</u>	<u>\$ 43,306,885</u>

Depreciation expense was not charged to functions/programs of the primary government as the District considers its assets to impact multiple activities and allocation is not practical.

### D. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
General obligation bonds	\$ 49,265,000	\$ -	\$ (1,695,000)	\$ 47,570,000	\$ 2,075,000
Less:					
Unamortized (discount) and premium	1,887,547	-	(96,484)	1,791,063	110,487
Deferred loss on refunding	(273,239)	-	25,222	(248,017)	(25,222)
Compensated absences	1,196,395	391,116	-	1,587,511	378,035
<b>Total</b>	<u>\$ 52,075,703</u>	<u>\$ 391,116</u>	<u>\$ (1,766,262)</u>	<u>\$ 50,700,557</u>	<u>\$ 2,538,300</u>

# FITZGERALD PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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Bonds payable at June 30, 2006, are comprised of the following issues:

**General Obligation Bonds:**

2001 School Building and Site Bonds – annual installments to a sinking fund cash account of \$103,354 per year from November 20, 2002 through November 20, 2015 at 0% interest. Principal is due on November 20, 2015.	\$ 2,000,000
2002 School Building and Site Bonds – annual installments to a sinking fund cash account of \$86,618 per year from November 12, 2003 through November 12, 2017 at 0% interest. Principal is due on November 12, 2017.	1,700,000
2004 School Building and Site Bonds – Unlimited Tax General Obligation – \$7,795,000 term bonds due in annual installments of \$430,000 to \$670,000 from May 1, 2005 through May 1, 2018, interest at 3.30% to 4.70%.	6,915,000
2004 Refunding Bonds – Unlimited Tax General Obligation – \$8,060,000 term bonds due in annual installments of \$375,000 to \$755,000 from May 1, 2005 through May 1, 2016, interest at 2.0% to 4.0%.	6,830,000
2004B School Building and Site Bonds – Unlimited Tax General Obligation – \$30,730,000 term bonds due in annual installments of \$605,000 to \$2,150,000 from May 1, 2006 through May 1, 2025, interest at 2.5% to 5.00%.	<u>30,125,000</u>
	<u>\$ 47,570,000</u>

# FITZGERALD PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Fiscal Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total</u>
2007	\$ 2,075,000	\$ 1,886,740	\$ 3,961,740
2008	2,110,000	1,832,273	3,942,273
2009	2,145,000	1,774,133	3,919,133
2010	2,190,000	1,707,925	3,897,925
2011	2,280,000	1,635,838	3,915,838
2012-2016	14,570,000	6,774,605	21,344,605
2017-2021	13,625,000	3,829,360	17,454,360
2022-2026	<u>8,575,000</u>	<u>1,073,750</u>	<u>9,648,750</u>
Total	<u>\$ 47,570,000</u>	<u>\$ 20,514,624</u>	<u>\$ 68,084,624</u>

### Advance Refundings

In prior years, the District defeased certain bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service requirements on the old issues. Therefore the related assets and liabilities are not included in the financial statements. As of June 30, 2006, \$10,535,000 of bonds are considered defeased.

### **E. Commitments and Contingencies**

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2006.

As of June 30, 2006, the District is obligated for construction contracts relating to building projects in the amount of \$34,531,523 of which \$16,750,314 is yet to be completed. These commitments are not susceptible to accrual. Accordingly, no liabilities have been recorded in the financial statements.

# **FITZGERALD PUBLIC SCHOOLS**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **IV. OTHER INFORMATION**

#### **A. Risk management**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance to satisfy any claims related to general liability, vehicle liability, property and casualty, athletic participation, employee health and accident and errors, and omissions. The shared risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

#### **B. Property taxes**

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied by the City of Warren on July 1, of each fiscal year. All levies become delinquent on February 14. The Delinquent Tax Revolving Funds of Macomb County advance delinquent real taxes to the District.

#### **C. Defined Benefit Pension Plan**

##### **Plan Description**

The Fitzgerald Public Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, PO Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

State legislation required that the District contribute 16.34%

# **FITZGERALD PUBLIC SCHOOLS**

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP on or after January 1, 1987 and prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The contribution requirements of plan members and the Fitzgerald Public Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The pension benefit rate changed from 14.87% to 16.34% in 2006. The School District's contributions to MPSERS for the years ended June 30, 2006, 2005 and 2004 were \$2,815,139 \$2,341,313 and \$2,309,500, respectively, equal to the required contributions for each year.

### **Other Postemployment Benefits**

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance included as part of the District's total monthly contribution to the pension plan discussed above.

Pension recipients are eligible for fully paid (self only, additional charges apply to dependent coverage) Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

# FITZGERALD PUBLIC SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### D. Fund Balance Designations

During the year ended June 30, 1992, the Board of Education resolved to designate revenues for building repair and renovations, capital outlay, vehicles and technology. The amount designated is based on .50 mills for building repair and renovations, .25 mills for vehicles, .75 mills for technology multiplied by the 1994-95 taxable valuation of the District, increased annually by the percentage increase in the State foundation grant.

During the year ended June 30, 2001, the Board of Education resolved to designate \$5,000 per year for band uniforms.

During the year ended June 30, 1998, the Board of Education resolved to designate the funds received as settlement for Durant case litigation in a separate account, for which all income is to be used to fund projects the following year as recommended by the board of education.

During the year ended June 30, 1998, the Board of Education resolved to designate fund balance for working capital equal to an amount computed as obligations in excess of revenues for the period July 1 to October 19, the date presumed to be the first Michigan State Aid payment each year.

During the year ended June 30, 1999, the Board of Education resolved to designate for declining enrollment in an amount equal to 100 FTE's multiplied by the current year's foundation allowance.

A summary of the designated fund balances at June 30, 2006 is as follows:

Building repairs and renovations	\$ 902,420
Capital outlay	446,881
Vehicles	169,681
Technology	246,474
Band uniforms	41,135
Durant settlement fund	515,368
State aid working capital	2,060,000
Declining enrollment	<u>798,500</u>
Total designated fund balance	<u>\$5,180,459</u>

\* \* \* \* \*

## **SUPPLEMENTARY INFORMATION**



**FITZGERALD PUBLIC SCHOOLS**  
**COMBINING BALANCE SHEETS**  
**NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2006

ASSETS	Special Revenue	Debt Service	Totals
<b>Assets</b>			
Cash and cash equivalents	\$ 438,179	\$ 1,159,533	\$ 1,597,712
Investments	-	728,536	728,536
Accounts recievable	1,996	-	1,996
Due from other governmental units	2,389	-	2,389
Due from other funds	14	110,352	110,366
Inventory	12,248	-	12,248
<b>Total assets</b>	<b>\$ 454,826</b>	<b>\$ 1,998,421</b>	<b>\$ 2,453,247</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 45	\$ -	\$ 45
Due to other funds	281,937	-	281,937
<b>Total liabilities</b>	281,982	-	281,982
<b>Fund balances</b>			
Reserved for:			
Inventory	12,248	-	12,248
Debt service	-	1,998,421	1,998,421
Unreserved:			
Undesignated	160,596	-	160,596
<b>Total fund balances</b>	<b>172,844</b>	<b>1,998,421</b>	<b>2,171,265</b>
<b>Total liabilities and fund balances</b>	<b>\$ 454,826</b>	<b>\$ 1,998,421</b>	<b>\$ 2,453,247</b>

The accompanying notes are an integral part of these financial statements.

**FITZGERALD PUBLIC SCHOOLS**  
**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**

**NONMAJOR GOVERNMENTAL FUNDS**

**Year Ended June 30, 2006**

	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Totals</b>
<b>Revenue</b>			
Local sources	\$ 515,593	\$ 3,173,255	\$ 3,688,848
State sources	46,492	-	46,492
Federal sources	508,841	-	508,841
<b>Total revenue</b>	<b>1,070,926</b>	<b>3,173,255</b>	<b>4,244,181</b>
<b>Expenditures</b>			
Current			
Athletics	348,649	-	348,649
Child care	210,742	-	210,742
Food service	901,147	-	901,147
Debt service			
Principal repayment	-	1,245,000	1,245,000
Interest and fiscal charges	-	1,627,524	1,627,524
Other	-	6,705	6,705
<b>Total expenditures</b>	<b>1,460,538</b>	<b>2,879,229</b>	<b>4,339,767</b>
Revenue under expenditures	(389,612)	294,026	(95,586)
<b>Other financing sources (uses)</b>			
Transfers in	377,325	283,099	660,424
Transfers out	-	(34,547)	(34,547)
Total other financing sources (uses)	377,325	248,552	625,877
Net change in fund balance	(12,287)	542,578	530,291
<b>Fund balances, beginning of year</b>	<b>185,131</b>	<b>1,455,843</b>	<b>1,640,974</b>
<b>Fund balances, end of year</b>	<b>\$ 172,844</b>	<b>\$ 1,998,421</b>	<b>\$ 2,171,265</b>

The accompanying notes are an integral part of these financial statements.

**FITZGERALD PUBLIC SCHOOLS**  
**COMBINING BALANCE SHEETS**  
**NONMAJOR SPECIAL REVENUE FUNDS**

June 30, 2006

	<u>Athletics</u>	<u>Child Care</u>	<u>Food Service</u>	<u>Total</u>
<b>ASSETS</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 195,981	\$ 21,185	\$ 221,013	\$ 438,179
Accounts receivable	-	-	1,996	1,996
Due from other governmental units	-	-	2,389	2,389
Due from other funds	14	-	-	14
Inventory	-	-	12,248	12,248
<b>Total assets</b>	<u><u>\$ 195,995</u></u>	<u><u>\$ 21,185</u></u>	<u><u>\$ 237,646</u></u>	<u><u>\$ 454,826</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 45	\$ -	\$ -	\$ 45
Due to other funds	195,950	21,185	64,802	281,937
<b>Total liabilities</b>	<b>195,995</b>	<b>21,185</b>	<b>64,802</b>	<b>281,982</b>
<b>Fund balances</b>				
Reserved for inventory	-	-	12,248	12,248
Unreserved, undesignated	-	-	160,596	160,596
<b>Total fund balances</b>	<u>-</u>	<u>-</u>	<u>172,844</u>	<u>172,844</u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 195,995</u></u>	<u><u>\$ 21,185</u></u>	<u><u>\$ 237,646</u></u>	<u><u>\$ 454,826</u></u>

The accompanying notes are an integral part of these financial statements.

# FITZGERALD PUBLIC SCHOOLS

## COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

### NONMAJOR SPECIAL REVENUE FUNDS

Year Ended June 30, 2006

	<u>Athletics</u>	<u>Child Care</u>	<u>Food Service</u>	<u>Total</u>
<b>Revenue</b>				
Local	\$ 28,874	\$ 153,192	\$ 333,527	\$ 515,593
State	-	-	46,492	46,492
Federal	-	-	508,841	508,841
<b>Total revenue</b>	<u>28,874</u>	<u>153,192</u>	<u>888,860</u>	<u>1,070,926</u>
<b>Expenditures</b>				
Food service	-	-	901,147	901,147
Athletics	348,649	-	-	348,649
Child care	-	210,742	-	210,742
<b>Total expenditures</b>	<u>348,649</u>	<u>210,742</u>	<u>901,147</u>	<u>1,460,538</u>
Revenue over (under) expenditures	(319,775)	(57,550)	(12,287)	(389,612)
<b>Other financing sources</b>				
Transfers in from other funds	<u>319,775</u>	<u>57,550</u>	-	<u>377,325</u>
Net change in fund balance	-	-	(12,287)	(12,287)
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>185,131</u>	<u>185,131</u>
<b>Fund balances, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 172,844</u></u>	<u><u>\$ 172,844</u></u>

The accompanying notes are an integral part of these financial statements.

# FITZGERALD PUBLIC SCHOOLS

## COMBINING BALANCE SHEET

### NONMAJOR DEBT SERVICE FUNDS

June 30, 2006

	<u>1992 Issue</u>	<u>2004 Issue</u>
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 16,338	\$ 1,143,195
Investments	-	-
Due from other funds	<u>59,394</u>	<u>50,958</u>
<b>Total assets</b>	<u><u>\$ 75,732</u></u>	<u><u>\$ 1,194,153</u></u>
 <b>FUND BALANCES</b>		
 <b>Total fund balances</b>	<u><u>\$ 75,732</u></u>	<u><u>\$ 1,194,153</u></u>

The accompanying notes are an integral part of these financial statements.

**FITZGERALD PUBLIC SCHOOLS**  
**COMBINING BALANCE SHEET (CONCLUDED)**  
**NONMAJOR DEBT SERVICE FUNDS**

June 30, 2006

	<u>QZAB 2001</u>	<u>QZAB 2002</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ -	\$ 1,159,533
Investments	454,918	273,618	728,536
Due from other funds	-	-	110,352
	<u>-</u>	<u>-</u>	<u>110,352</u>
<b>Total assets</b>	<u><u>\$ 454,918</u></u>	<u><u>\$ 273,618</u></u>	<u><u>\$ 1,998,421</u></u>
 <b>FUND BALANCES</b>			
<b>Total fund balances</b>	<u><u>\$ 454,918</u></u>	<u><u>\$ 273,618</u></u>	<u><u>\$ 1,998,421</u></u>

The accompanying notes are an integral part of these financial statements.

# FITZGERALD PUBLIC SCHOOLS

## COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

### NONMAJOR DEBT SERVICE FUNDS

Year Ended June 30, 2006

	<u>1992</u> <u>Issue</u>	<u>2000</u> <u>Issue</u>	<u>2004</u> <u>Issue</u>
<b>Revenue</b>			
Local sources	\$ 2,066,943	\$ -	\$ 1,081,541
<b>Total revenue</b>	<u>2,066,943</u>	<u>-</u>	<u>1,081,541</u>
<b>Expenditures</b>			
Debt service			
Principal	605,000	-	640,000
Interest	1,393,500	-	234,024
Other	2,059	-	4,646
<b>Total expenditures</b>	<u>2,000,559</u>	<u>-</u>	<u>878,670</u>
Revenue over expenditures	66,384	-	202,871
<b>Other financing sources</b>			
Transfer in	-	34,547	58,580
Transfer out	-	-	(34,547)
Net change in fund balance	66,384	34,547	226,904
Fund balances, beginning of year	<u>9,348</u>	<u>(34,547)</u>	<u>967,249</u>
<b>Fund balances, end of year</b>	<u><u>\$ 75,732</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,194,153</u></u>

The accompanying notes are an integral part of these financial statements.

# FITZGERALD PUBLIC SCHOOLS

## COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES (CONCLUDED)

### NONMAJOR DEBT SERVICE FUNDS

Year Ended June 30, 2006

	2001 QZAB	2002 QZAB	Total
<b>Revenue</b>			
Local sources	\$ 18,602	\$ 6,169	\$ 3,173,255
<b>Total revenue</b>	<b>18,602</b>	<b>6,169</b>	<b>3,173,255</b>
<b>Expenditures</b>			
Debt service			
Principal	-	-	1,245,000
Interest	-	-	1,627,524
Other	-	-	6,705
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>2,879,229</b>
Revenue over expenditures	18,602	6,169	294,026
<b>Other financing sources</b>			
Transfer in	103,354	86,618	283,099
Transfer out	-	-	(34,547)
Net change in fund balance	121,956	92,787	542,578
Fund balances, beginning of year	332,962	180,831	1,455,843
<b>Fund balances, end of year</b>	<b>\$ 454,918</b>	<b>\$ 273,618</b>	<b>\$ 1,998,421</b>

The accompanying notes are an integral part of these financial statements.



**FITZGERALD SCHOOL DISTRICT**  
**Warren, Michigan**

**REPORT ON EXPENDITURES**  
**OF FEDERAL AWARDS**

**June 30, 2006**

**FITZGERALD SCHOOL DISTRICT**  
**Warren, Michigan**

**REPORT ON EXPENDITURES**  
**OF FEDERAL AWARDS**

**June 30, 2006**

# FITZGERALD SCHOOL DISTRICT

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

October 20, 2006

Board of Education  
Fitzgerald School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fitzgerald School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct

and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Fitzgerald School District in a separate letter dated October 20, 2006.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Lehmann Lohman".



# REHMANN ROBSON

*Certified Public Accountants*

*A member of* THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

October 20, 2006

Board of Education  
Fitzgerald School District

## **Compliance**

We have audited the compliance of Fitzgerald School District (the District) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Fitzgerald School District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

## **Internal Control Over Compliance**

The management of Fitzgerald School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fitzgerald School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 20, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Lehman Johnson", is positioned in the lower right area of the page.

# FITZERALD SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Program or Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2005	Adjustments and Transfers	Cash Received/ Payments In Kind	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
U.S. Department of Education:								
Passed Through the Michigan Department of Education:								
Title I								
2004-2005 Carryover(041530-0405)		56,056	56,056	26,718	-	26,718	-	-
2004-2005(051530-0405)		649,151	622,204	242,995	-	242,995	-	-
2005-2006 Carryover (051530-0506)		26,947	-	-	-	26,947	26,947	-
2005-2006 (061530-0506)		718,894	-	-	-	515,823	636,119	120,296
	84.010	1,451,048	678,260	269,713	-	812,483	663,066	120,296
Title V								
2004-2005 - Carryover (040250-0405)		627	627	627	-	627	-	-
2004-2005 (050250-0405)		17,518	60	60	-	17,251	17,191	-
2005-2006 Carryover (050250-0506)		267	-	-	-	267	267	-
2005-2006 (060250-0506)		12,051	-	-	-	12,051	-	(12,051)
	84.298	30,463	687	687	-	30,196	17,458	(12,051)
Title IID, Enhancing education through technology								
2005-2006 (064290-0506)		13,411	-	-	-	12,906	13,411	505
Title IIA, Improving teacher quality								
2004-2005(050520-0405)		176,284	138,202	17,399	-	17,399	-	-
2005-2006 (050250 0506) Carryover		38,082	-	-	-	35,829	38,082	2,253
2005-2006 (060520 0506)		180,053	-	-	-	31,729	93,904	62,175
	84.367	394,419	138,202	17,399	-	84,957	131,986	64,428
Katrina FY 2006 (Elem. and Secondary Ed. Hurricane Relief)		1,159	-	-	-	1,159	1,159	-
	84.938C							
Total Passed Through the Michigan Department of Education								
		1,890,500	817,149	287,799	-	941,701	827,080	173,178



# FITZERALD SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Program or Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2005	Adjustments and Transfers	Cash Received/ Payments In Kind	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
Macomb Intermediate School District:								
I.D.E.A.: (Cluster)								
Flow-through:								
2004-2005	84.027	\$ 588,055	\$ 588,055	\$ 294,026	\$ (147,013)	\$ 147,013	\$ -	\$ -
2005-2006	84.027	533,223	-	-	-	533,223	533,223	-
Transition:								
2005-2006	84.027	1,895	-	-	-	1,895	1,895	-
Preschool:								
2004-2005	84.173	38,753	38,753	19,377	-	19,377	-	-
2005-2006	84.173	23,546	-	-	-	23,546	23,546	-
Total I.D.E.A.: (Cluster)		<u>1,185,472</u>	<u>626,808</u>	<u>313,403</u>	<u>(147,013)</u>	<u>725,054</u>	<u>558,664</u>	<u>-</u>
Drug-free schools, 2005-2006	84.186b	9,120	-	-	-	9,120	9,120	-
Title III (0605580 0506) Limited English Proficient Students	84.365A	35,916	-	-	-	35,916	35,916	-
Taking Action Managing Emergencies (TAME)	84.184E	3,000	-	-	-	3,000	3,000	-
Total Macomb Intermediate School District		<u>1,233,508</u>	<u>626,808</u>	<u>313,403</u>	<u>(147,013)</u>	<u>773,090</u>	<u>606,700</u>	<u>-</u>
Total SMTEC,								
Carl Perkins, 2005-2006	84.048A	9,371	-	-	-	9,371	9,371	-
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>3,133,379</u>	<u>1,443,957</u>	<u>601,202</u>	<u>(147,013)</u>	<u>1,724,162</u>	<u>1,443,151</u>	<u>173,178</u>

# FITZERALD SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Program or Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2005	Adjustments and Transfers	Cash Received/ Payments In Kind	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
U.S. Department of Labor:								
Macomb/St. Clair Workforce Development Board, Inc., WIA:								
Youth (03-3433)		\$ 35,821	\$ -	\$ 3,907	\$ (3,907)	\$ -	\$ -	\$ -
In School Continuum 2005		160,000	155,110	69,243	-	69,243	-	-
In School Continuum 2006		155,496	-	-	-	96,344	144,822	48,478
Out of School 2005		90,933	82,410	16,727	-	16,727	-	-
Out of School 2006		110,500	-	-	-	97,237	110,372	13,135
In School Youth Summer Program 2004		60,000	60,000	3,784	-	3,784	-	-
In School Youth Summer Program 2005		59,985	-	-	-	58,557	58,557	-
In School Youth Summer Program 2006		64,352	-	-	-	-	28,164	28,164
Out of School Program Admin 2006		12,481	-	-	-	12,321	12,343	22
Continuum Stipends 2006		16,000	-	-	-	11,429	11,896	467
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>	17.259	<b>765,568</b>	<b>297,520</b>	<b>93,661</b>	<b>(3,907)</b>	<b>365,642</b>	<b>366,154</b>	<b>90,266</b>
U.S. Department of Agriculture:								
Passed Through the Michigan Department of Education:								
Child Nutrition Cluster:(Major Program)								
Breakfast (51970)	10.553	48,683	48,683	4,063	-	4,063	-	-
Breakfast (61970)	10.553	59,046	-	-	-	59,046	59,046	-
Total Servings, Section 4:(51950)	10.555	42,863	42,863	2,514	-	2,514	-	-
Total Servings, Section 4:(61950)	10.555	55,671	-	-	-	55,671	55,671	-
Free and reduced, Section 11(51960)	10.555	247,516	247,516	15,693	-	15,693	-	-
Free and reduced, Section 11(61960)	10.555	352,713	-	-	-	352,713	352,713	-

# FITZERALD SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Program or Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2005	Adjustments and Transfers	Cash Received/ Payments In Kind	Expenditures	Accrued (Deferred) Revenue at June 30, 2006
Summer Food Service	10.559	4,535	-	-	-	4,535	4,535	-
Total Child Nutrition Cluster		811,027	339,062	22,270	-	494,235	471,965	-
Food Distribution Program:								
Bonus Commodities 2005/2006	10.550	1,005	-	-	-	1,005	1,005	-
Entitlement Commodities 2005/2006	10.550	35,871	-	-	-	35,871	35,871	-
Total Food Distribution Program		36,876	-	-	-	36,876	36,876	-
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>		<b>847,903</b>	<b>339,062</b>	<b>22,270</b>	<b>-</b>	<b>531,111</b>	<b>508,841</b>	<b>-</b>
U.S. Department of Homeland Security:								
Homeland Security November 1, 2005 - December 15, 2005	97.004	\$ 8,004	\$ -	\$ -	\$ -	\$ 8,004	\$ 8,004	\$ -
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>		<b>8,004</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,004</b>	<b>8,004</b>	<b>-</b>
<b>TOTAL FEDERAL AWARDS</b>		<b>\$ 4,754,854</b>	<b>\$ 2,080,539</b>	<b>\$ 717,133</b>	<b>\$ (150,920)</b>	<b>\$ 2,628,919</b>	<b>\$ 2,326,150</b>	<b>\$ 263,444</b>

# FITZGERALD SCHOOL DISTRICT

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2006

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### 1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Fitzgerald School District (the District) and is presented on the same basis of accounting as the financial statements.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

### 2. ADJUSTMENTS AND TRANSFERS

The following adjustments to the Schedule of Expenditures of Federal Awards were made for the year ending June 30, 2006:

<u>Program</u>	<u>Adjustment</u>	<u>Explanation</u>
Youth (03-3433)	\$ 3,907	Amount was deemed uncollectible
I.D.E.A. Flow-through 04-05	<u>147,013</u>	Amount was actually received in prior fiscal year
Total	<u>\$ 150,920</u>	

### 3. NONCASH ASSISTANCE

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

### 4. GRANT SECTION AUDITORS' REPORT

Management has utilized Form R-7120 in preparing the schedule of expenditures of federal awards. Unreconciled differences are due to timing and have been disclosed to the auditor.

**FITZGERALD SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**5. ENTITLEMENT COMMODITIES**

The District reported receipts and expenditures of \$35,871 in entitlement commodities in the Schedule of Expenditures of Federal Awards in order to reconcile to the Recipient Entitlement Balance Report received from the Michigan Department of Education.

**FITZGERALD SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal Control over major programs:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	None Reported
Type of auditors’ report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	No
Identification of major programs:	84.010 - Title I
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**FITZGERALD SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

None noted.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted.

**SECTION IV – PRIOR YEAR FINDINGS**

**2005-A**

***Statement of Condition:*** During our audit procedures we noted that the District did not obtain certifications for 100% funded staff, nor did they keep documentation to support the allocation of co-funded staff. This is considered to be a systemic problem.

***Follow-Up:*** During our follow up procedures we noted that the District has established a policy of tracking and documenting the time spent on special education programs for co-funded employees and obtained biannual certifications for 100% funded employees.

\* \* \* \* \*



# REHMANN ROBSON

*Certified Public Accountants*

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October 20, 2006

Board of Education  
Fitzgerald School District

In planning and performing our audit of the financial statements of the *Fitzgerald School District*, for the year ended June 30, 2006, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated October 20, 2006, on the financial statements of the *Fitzgerald School District*.

The accompanying comments and recommendations are intended solely for the information and use of the audit committee, management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the District in implementing the recommendations.

We would like to thank the staff and management of the *Fitzgerald School District* for their assistance and cooperation in completing the audit.



**A) SEGREGATION OF DUTIES - PAYROLL**

During our audit, we became aware of the fact that the same district employee that had control over personnel data including employee setup, salary information and wage rates was also the individual assigned to process payroll including the printing of checks. This lack of separation of duties increases the Districts exposure to the risk of fraud from misappropriation.

**Recommendation**

We would recommend that the District delegate the duties of entering personnel data such as setting up employees, entering in salaries and wage rates segregated from the person responsible for processing payroll.

**B) JOURNAL ENTRY REVIEW AND APPROVAL**

During our audit, we became aware of the fact that not all non-standard journal entries were reviewed and approved by an employee other than the preparer of that journal entry

**Recommendation**

We would recommend that the District require approval of a responsible official who is not involved in the preparation of the journal entry for all non-standard journal entries.

**C) FOOD SERVICE FUND PURCHASING PROCEDURES**

During our audit we noted that disbursements for food service were being approved and processed using only check requests without the original invoice attached. Part of the Districts internal controls involves paying only on original invoices and requires the accounts payable clerk to assure proper approval along with footing and recalculating the invoice to assure clerical accuracy.

**Recommendation**

We would recommend that check requests include the original invoice for processing. We believe that the District will benefit from increased internal control over food service disbursements.